ZHONG MEI SDN BHD

v.

CHIA HOON SENG & ORS

HIGH COURT MALAYA, JOHOR BAHRU
VERNON ONG LAM KIAT JC
[CIVIL SUIT NO: (MT-1) 22-575-1998]
2 JUNE 2009

CONTRACT: *Assignment - Deed of assignment - Right to demand trade mark - Whether stated in first assignment - Whether conditions attached to first assignment - Whether second assignment unlawful due to failure to obtain shareholders' approval under s. 132C of Companies Act 1965 - Whether terms of transfer must be honoured*

COMPANY LAW: *Directors - Fiduciary duties - Trust - Breach of trust - Whether trade mark a substantial asset - Whether directors' resolution to transfer trade mark was of no effect - Companies Act 1965, s. 132C(1) - Whether contravened*

By an assignment dated 12 September 1991 ('the first assignment'), the third defendant Sin Leong Hang Sdn Bhd ('SLHSB') assigned to Zhong Mei Sdn Bhd ('Zhongmei') the full benefit of the application of the trade mark application no. 85/05266 in class 29 for RM1,000,00 (TM). On 15 July 1994, Zhongmei was registered as the proprietor of the trade mark. By a deed of assignment dated 15 December 1995 ('the second assignment'), Zhongmei assigned the trade mark to SHLSB for RM1,000. The first assignment was signed by the second defendant Seow Ah Mai ('Seow') as managing director on behalf of SLHSB (the assignor) and by Ong Eng Kow on behalf of Zhongmei (the assignee). According to a directors' resolution of SLHSB passed on 12 September 1991, the first assignment was subject, *inter alia*, to SLHSB's right to demand for the immediate transfer back of the proprietorship of the trade mark which was signed by Seow, Ong Eng Kow and Ong Eng Chee. The second assignment was signed by the first defendant Chia Hoon Seng ('Chia') as director for Zhongmei (the assignor) and by Seow as managing director for SLHSB (the assignee). The second assignment was approved in a directors' resolution of Zhongmei dated 15 December 1995 signed by Seow, Chia and Ong Soh Wah. According to Zhongmei at all material times Chia was a director and Seow a managing director of Zhongmei. At the same

A time Seow was also a managing director and shareholder of SLHSB. It was Zhongmei's claim that (i) both Chia and Seow had acted in breach of trust and breached their fiduciary duties owed to Zhongmei and (ii) that the second assignment was unlawful and invalid because of the failure to obtain Zhongmei's
B shareholders' approval under a s. 132C of the Companies Act 1965 ('the Act').

Held (allowing plaintiff's claim):

C **(1)** The TM was a substantial asset of Zhongmei. The directors' resolution to transfer the TM to SLHSB was of no effect. There was no shareholders' resolution approving the transfer of the TM. This was in contravention of s. 132C(1) of the Companies Act 1965. Notwithstanding s. 132C(3) CA, the
D second assignment was invalid. On the facts of the second assignment, the assignment of the TM was for the consideration sum of RM1,000 to Zhongmei. Even if the second assignment was made for valuable consideration, SLHSB took with actual notice of the contravention. At all
E material times, Seow was a director of both Zhongmei and SLHSB. He had actual notice of the contravention. The circumstances in which the second assignment and Zhongmei's directors' resolution were made were highly questionable. (para 15)

F **(2)** SLHSB's right to demand back the TM was not stated in the first assignment. If in fact such was the condition, and a fundamental condition at that, it was questionable why this condition was not inserted in the first assignment. The first assignment was straightforward of the TM from SLHSB to
G Zhongmei for RM1,000. There was no mention whatsoever that the assignment was also subject to the directors' resolutions. There were no other conditions attached to that assignment. The defendants' contention that the terms of the transfer must be honoured was contradicted by the first
H assignment. (para 16)

Legislation referred to:
Companies Act 1965, ss. 131, 132C(1), (3)

For the plaintiff - KC Tho; M/s KC Tho & Partners
I *For the defendants - RK Menon; M/s RK Menon & Co*

Reported by Suhainah Wahiduddin

JUDGMENT

Vernon Ong Lam Kiat JC:

[1] By an assignment dated 12 September 1991 ('the 1st assignment') the 3rd defendant Sin Leong Hang Sdn Bhd ('SLHSB') assigned to Zhong Mei Sdn. Bhd. ('Zhongmei') the full benefit of the application of the trade mark application no. 85/05266 in class 29 for RM1,000. On 15 July 1994 Zhongmei was registered as the proprietor of the Trade Mark No. 85/05266 (Chinese characters and device) in class 29 ('the Trade Mark'). By a deed of assignment dated 15 December 1995 ('the 2nd Assignment') Zhongmei assigned the Trade Mark to Sin Leong Hang Sdn. Bhd.('SLHSB') for RM1,000.

[2] The 1st assignment was signed by the 2nd defendant Seow Ah Mai @ Seow Gek Beng ('Seow') as managing director on behalf of SLHSB (the assignor) and by Ong Eng Kow on behalf of Zhongmei (the assignee). According to a directors' resolution of SLHSB passed on 12 September 1991 the 1st assignment was subject, *inter alia*, to SLHSB's right to demand for the immediate transfer back of the proprietorship of the Trade Mark for RM1,000. SLHSB's board resolution was signed by Seow, Ong Eng Kow and Ong Eng Chee.

[3] The 2nd assignment was signed by the 1st defendant Chia Hoon Seng ('Chia') as director for Zhongmei (the assignor) and by Seow as managing director for SLHSB (the assignee). The 2nd assignment was approved in a directors' resolution of Zhongmei dated 15 December 1995 signed by Seow, Chia, and Ong Soh Wah @ Ong Siew Mooi.

Zhongmei's Claim

[4] According to Zhongmei at all material times Chia was a director and Seow a managing director of Zhongmei. At the same time Seow was also a managing director and shareholder of SLHSB. Both Chia and Seow are said to have acted in breach of trust and/or breached their fiduciary duties owed to Zhongmei and/or Chia, Seow and SLHSB have committed fraud on Zhongmei. Zhongmei is seeking for a declaration that the 2nd Assignment is null and *void ab initio* and other consequential orders.

[5] The particulars of the alleged breaches may be summarised as follows:

(i) The 2nd assignment for the consideration of RM1,000 is substantially lower than the market value of the Trade Mark. The consideration sum of RM1,000 was never paid to and received by Zhongmei.

(ii) The 2nd Assignment was entered into without the knowledge and/or approval of Zhongmei, Hai Tong Co. (Pte) Ltd ('Hai Tong'), its shareholders and/or board of directors. No resolution was passed to approve the 2nd assignment or to approve the execution thereof by Chia on behalf of Zhongmei and Seow on behalf of SLHSB.

(iii) Seow in acting as a signatory for and on behalf of SLHSB acted in breach of trust and/or in breach of his fiduciary duties to Zhongmei and/or acted in conflict of interest with his duty as managing director of Zhongmei. Further Chia did not have any authority to bind Zhongmei in the 2nd assignment and had acted in breach of trust and/or breach of his fiduciary duty to Zhongmei.

(iv) Seow and/or SLHSB had prior to and subsequent to the execution of the 2nd assignment fraudulently utilised the Trade Mark for his/their own benefit.

(v) Seow acting as managing director of SLHSB in receiving the assignment of the Trade Mark had wrongfully placed himself in a position of conflicting interest with Zhongmei.

(vi) Seow and Chia fraudulently, wrongfully and unlawfully caused the assignment of the Trade Mark by Zhongmei to SLHSB.

The Evidence

[6] In this case it is pertinent to trace the history of Zhongmei since its inception. Zhongmei was incorporated on 24 August 1991 The original shareholders of Zhongmei were Seow, Ong Eng Kow and Ong Eng Chee. Sometime in 1991 or 1992 Seow offered to Hai Tong to take over Zhongmei. Hai Tong agreed to invest in Zhongmei for the purpose of manufacturing bird's nest for export to China, Japan, America and the European markets. Hai Thong invested in Zhongmei by financing the purchase of a factory by Zhongmei for approximately RM700,000.

[7] According to Tan Hee Chye (PW1) a director of Hai Tong, the substantial assets of Zhongmei are (i) the factory and (ii) the Trade Mark. PW1 said that the Trade Mark was an asset of Zhongmei when Hai Tong invested. He said that Hai Tong would not have invested in Zhongmei if the Trade Mark was not an asset of Zhongmei. PW1 who became a director of Zhongmei on 25 January 1992 testified that he was not aware that the Trade Mark had been assigned to SLHSB on 15 December 1995. He only discovered that sometime in January 1998. PW1 also said that he did not receive any notice of any directors' meeting in respect of the resolution authorising the 2nd assignment; there was also no shareholders' meeting on this matter. PW1 further said that notwithstanding a consent judgment dated 1 December 1997 *vide* Civil Suit No. 22-147-1996 ('the consent judgment') and despite their solicitor's numerous reminders the defendants in this case failed to deliver to Zhongmei the documents relating to the Trade Mark. Zhongmei's independent auditor and new company secretary did not receive the same. PW1 produced some empty bird's nest boxes (exh. P12) and Fairy brand Bird's nest (P13) which he said was purchased in Johor Bahru. No receipts, however, were produced for the said items. He also produced some Fairy brand labels (exh. P14). PW1 said in re-examination that he was not interested in claiming for loss of profits.

[8] Wong Tunk Hing (PW2) a company secretary testified that he was appointed company secretary of Zhongmei on 1 December 1997 PW2 said that after his appointment he received secretarial documents sometime in 1998. PW2 said that he checked through the documents. There was no board resolution relating to the Trade Mark. There were also no documents relating to the Trade Mark. Yeo Eng Thong (PW3) a company auditor testified that after auditing Zhongmei's accounts he prepared a Special Audit report dated 30 April 1999 (exh. P8). PW3 said that when he received documents from Zhongmei's solicitors there were no documents relating to the Trade Mark. In the special audit report on the Trade Mark it is inter alia stated that there was no record of directors' resolutions on the registration of the Trade Mark and the books of accounts did not record any costs associated with the Trade Mark.

[9] It is not disputed that in 1991 when Hai Tong invested in Zhongmei the three directors of the company were Seow, Ong Eng Kow and Ong Eng Chee. On 25 January 1992 there were six directors. They included Tan Hee Chye, Seow, Chia, Ong Eng

Chee, Ong So Bee and Ong Soh Wah @ Ong Siew Mooi. Tan Hee Chye who was also a director of Hai Tong was Hai Tong's nominee on the board of directors of Zhongmei. As at 25 January 1995 and 25 July 1995 there were four directors comprising of Tan Hee Chye, Seow, Chia and Ong Soh Wah @ Ong Siew Mooi. As at 28 March 1996 there were five directors made up of the said four individuals and Ong Eng Chee.

[10] It is also pertinent to trace the shareholding of Zhongmei for the relevant period. As at 12 September 1991 the shareholders were Seow, Ong Eng Kow and Ong Eng Chee. However, as at 25 January 1992 the shareholders were Seow, Ong Eng Chee and Ong Sow Way @ Ong Siew Mooi. Ong Eng Chee had dropped out. Seow, Ong Eng Chee and Ong Soh Wah @ Ong Siew Mooi remained as shareholders as at 25 July 1995, 28 March 1996. Subsequently, all the shares in Zhongmei held by Seow, Ong Eng Chee and Ong Soh Wah @ Ong Siew Mooi were transferred to Hai Tong's name pursuant to the consent judgment. For completeness the directors of SLHSB as at 12 September 1991 and 15 December 1995 were Seow, Anita Binti Selamat, Mat Isa Bin Mat and Ong Eng Chee. The shareholders of SLHSB for the said period were Mat Isa Bin Mat and Seow.

[11] Under cross-examination Seow (DW1) agreed that Hai Tong invested in Zhongmei sometime on 29 January 1992. At that time the Trade Mark was already with Zhongmei. Hai Tong invested in Zhongmei on his representation that the Trade Mark belonged to Zhongmei. Seow also agreed that the Trade Mark was a substantial asset of Zhongmei. Seow also agreed that even though the Trade Mark was a substantial asset of Zhongmei he did not call an extraordinary general meeting for the transfer of the Trade Mark. Seow denied the suggestion that he was in breach of his fiduciary duty to Zhongmei when he signed the resolution relating to the 2nd Assignment whilst at the same time he was also a director of SLHSB. Seow also denied the suggestion that he never gave all the documents and accounts to PW1. In answer to the suggestion that Zhongmei's solicitors had written to his lawyers for all documents relating to the Trade Mark Seow said that he does not remember about that. Seow agreed that pursuant to the consent judgment he was required to produce all documents and resolutions of Zhongmei to PW3. Seow agreed that he did not produce any documents relating to the Trade Mark to PW3. Seow also admitted that he is the sole proprietor

of Strength City Trading Co. Although there is evidence that Strength City Trading Co. dealt with SLHSB in bird's nests, there was no evidence to show Strength City Trading Co. was using the Trade Mark.

Zhongmei's Submission

[12] Learned counsel for Zhongmei submitted that the 2nd assignment is unlawful and invalid because of the failure to obtain Zhongmei's shareholders' approval under a 132C of the Companies Act 1965 ('the Act'). Both PW1 and DW1 confirmed that the Trade Mark was a substantial asset of Zhongmei. DW1 confirmed that no shareholders' resolution was passed to approve the 2nd assignment. s. 132C of the Act provides that the disposal of a substantial asset of a company requires the shareholders' approval.

[13] Learned counsel also submitted that Seow was the managing director of Zhongmei when he executed the 2nd assignment and the directors' resolution on behalf of SLHSB. Even though Hao Tong was 100% shareholder of Zhongmei, no shareholders' resolution was passed to approve the 2nd assignment. PW1 who was a director of Zhongmei at the material time was neither informed about nor asked to sign the 2nd assignment or the directors' resolution authorising the 2nd assignment. The 2nd Assignment and the directors' resolution were executed expeditiously on 15 December 1995 when PW1 pressed Seow for the documents and accounts of Zhongmei. Shortly thereafter Hai Tong instituted a civil suit and obtained a court order to injunct Seow and other directors of Zhongmei from disposing the factory. It was submitted that in the circumstances the 2nd Assignment and the directors' resolution were designed to dispose and dissipate Zhongmei's assets so that when Hai Tong takes over the entire shareholding of Zhongmei, Zhongmei would be an empty shell. It is stated in the special audit report that Seow withdrew a total sum of RM81,000,00 over a period time from 19 January 1995 to 24 Jun 1996 without any basis.

Defendants' Submission

[14] Learned counsel for the defendants submitted that when the 1st assignment was made PW1 was not a party. The terms of the transfer as contained in SLHSB's board resolution stating SLHSB's right to demand for the immediate transfer back of the

proprietorship of the Trade Mark for RM1,000. SLHSB's board resolution must be honoured. The 2nd assignment of the Trade Mark from Zhongmei to SLHSB is therefore valid. The Trade Mark is not a substantial asset of Zhongmei.

Findings Of The Court

[15] On the evidence the following is clear:

(i) The TM is a substantial asset of Zhongmei.

(ii) The directors' resolution to transfer the TM to SLHSB is of no effect. There was no shareholders' resolution approving the transfer of the TM. This is in contravention of s. 132C(1) CA.

(iii) notwithstanding s. 132C(3) CA, the 2nd assignment is invalid. On the face of the 2nd assignment, the assignment of the TM is for the consideration sum of RM1,000. However, Seow said that SLHSB did not pay RM1,000 to Zhongmei. Even if the 2nd assignment was made for valuable consideration, SLHSB took with actual notice of the contravention. At all material times Seow was a director of both Zhongmei and SLHSB. He had actual notice of the contravention. The circumstances in which the 2nd assignment and Zhongmei's directors' resolution were made are highly questionable. In the first place when Seow invited Hai Tong to invest in Zhongmei, he represented to PW1 that the TM belonged to Zhongmei. He omitted to inform PW1 of SLHSB's so-called right to demand back the TM for RM1,000. He did not provide any documents pertaining to the TM to PW1, the independent auditor or the new company secretary. He deliberately kept them in the dark. Seow was at all material times a director of both Zhongmei and SLHSB. He ought to have disclosed his interest to Zhongmei under s. 131 CA. This Seow did not do. Instead, he sought to rely on the directors' resolution of both Zhongmei and SLHSB as the basis to effect the transfer of the TM under the 2nd assignment. The non-disclosure, more pertinently, withholding of material documents and information on the TM (in particular SLHSB's right to demand back the TM) to PW1 was a deliberate act calculated to deceive PW1.

[16] It is also significant that SLHSB's right to demand back the TM is not stated in the 1st assignment. If in fact such was the condition, and a fundamental condition at that, it is questionable why this condition was not inserted in the 1st assignment. Looking

at the 1st assignment, one gets the impression that it is a straightforward assignment of the TM from SLHSB to Zhongmei for RM1,000. There is no mention whatsoever that the assignment is also subject to the directors' resolutions. There are no other conditions attached to that assignment. The defendants' contention that the terms of the transfer must be honoured is contradicted by the 1st assignment.

[17] For the foregoing reasons the plaintiff's claim is allowed in prayers (a)(I)(i), (ii), (iii), damages to be assessed by TP, (b), (c) and (d) of the statement of claim.